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SIPDIS

SENSITIVE

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SUBJECT: KARADENIZ STOPS DELIVERY OF ELECTRICITY FROM
TURKEY TO IRAQ DUE TO NON-DELIVERY OF HEAVY FUEL OIL

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1. (SBU) SUMMARY: According to the Turkish company Karadeniz (KARTET), it informed the Iraq Ministry of Electricity that as of October 26 it was no longer able to deliver electricity from Turkey to Northern Iraq because of non-delivery of contractual heavy fuel oil (HFO) from Iraq. According to KARTET, the company installed 200 MW of generation/transformer capacity at its Silopi facility, but had received no shipments of HFO from Iraq. In good faith efforts to advance the deal, KARTET said it purchased some HFO and electricity from within Turkey, but was unable to continue doing so, and blamed administrative/logistical problems and now security problems in Iraq for the inability of Iraq to provide the contractual HFO. End Summary.

Heavy fuel oil for electricity partial barter deal

2. (SBU) Turkish company Karadeniz (KARTET) rep Orhan Karadeniz explained to ECONOFF on November 1 the circumstances which led the company to inform the Iraq Ministry of Electricity (MOE) that it was stopping delivery of electricity to Northern Iraq on October 26 because of non-delivery of contracted heavy fuel oil (HFO) from the Baiji refinery in Northern Iraq. Karadeniz said that per the December 2003 renegotiated contract with the Iraq MOE, KARTET was to provide 110 million kilowatt-hours per month (150 Mega Watt average - to increase to 240 MW in 2005). For its part, Iraq was to provide 30,000 tons of HFO per month at a fixed price to generate the electricity to be transmitted and to contribute to the compensation to KARTET. The partial barter deal allowed the Iraqi MOE to at its option pay the balance for the electricity (6.6 cents per kwh) by up to 30,000 tons of HFO at market price and/or cash. According to Karadeniz, Iraq had delivered not a drop of HFO to date.

3. (SBU) According to Karadeniz, the Iraqi MOE had faced a series of problems in delivering the contractual HFO. First the main Northern Iraqi refinery at Baiji had shut down and was then restarted. Subsequently, MOE had not been able to work out financial/administrative arrangements with the Iraqi State Oil Marketing Organization (SOMO). More recently, KARTET had worked out a trilateral arrangement with MOE and SOMO, but the security situation had become prohibitive. According to Karadeniz, KARTET had arranged for Iraqi truck drivers to ship the HFO to Zakho on the Iraqi side of Harbur Gate; then Turkish truck drivers would take the shipment on to Silopi. Karadeniz said that two "terrorist/mafia" groups were currently stopping all truck traffic.

Good Faith Efforts to Deliver Electricity

4. (SBU) Even in light of non-delivery of Iraqi HFO, Karadeniz said KARTET endeavored to deliver electricity in good faith to Iraq by purchasing HFO from Turkish refineries and/or electricity from the Turkish state electricity trading company (TETAS). Karadeniz said that Turkish HFO was no longer physically available from the nearby Batman refinery and the arrangement with TETAS was very restrictive and expensive (necessitating delivery of electricity at night prior to the shut-down). Karadeniz said that the arrangement with TETAS provided for the purchase of one MW from the grid for each MW generated at Silopi. This was, however, very restrictive if there was no generation (current situation) and the GOT had been to date unable to be more flexible for legal reasons. He explained that KARTET had to notify TETAS two months in advance and then commit to a take-or-pay cap arrangement for the amount, subject to substantial penalties for any excess electricity taken. According to Karadeniz, although the GOT had allowed KARTET to begin electricity export very quickly without finalizing pricing, the company had had to pay an excessive price to TETAS for electricity taken off the grid for the first nine months.

5. (SBU) Karadeniz claimed that his company had complied early with its commitment to increase and test transformer and production capacity to 240 MW by 2005. In short, he said his company had met all technical and contractual requirements to provide reliable capacity at or above 200 MW. The KARTET rep said that at this level of production, his company could provide significant electricity as far as

Mosul. Karadeniz said his company had sought to cooperate and be flexible and was still seeking alternative sources of HFO, but was now aiming to rely on his plants' own generation.

16. (SBU) In a subsequent conversation, Karadeniz said that KARTET had been able to source a limited quantity of HFO in Turkey to allow limited operation over the next week. Karadeniz also said that he understood that there would be HFO available at the Daura refinery in Baghdad and was having his logistics people evaluate potential trucker routes based on the security environment. He said that he would welcome any potential help from the U.S. military.

17. (SBU) A senior official at the Turkey Ministry of Energy said it was aware of Karadeniz, difficulties and earlier compulsion to deliver electricity purchased from the Turkish grid only at night. He said the GOT was working to change the Karadeniz electricity purchase contract to provide a more facilitative "market mechanism".

18. (SBU) COMMENT: Embassy cannot verify all the specifics, but the Karadeniz version appears credible. Our understanding is that the GOT in fact played a supportive role in quickly providing special permits for the Silopi plant to sell electricity to Iraq, but purchases from the Turkish grid were meant to supplement, not wholly supply, the contracted amount of electricity. Ministry of Energy officials claim to be working to help resolve the situation, but state that changes in legislation and/or regulation will be required to allow significant export of electricity from the Turkish grid.

19. (U) Baghdad Minimize Considered.
EDELMAN